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Tax News

Louise A. Sallmann

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TAX NEWS

By LOUISE A. SALLMANN, C.P.A., Oakland, California

The most important "Tax News" of 1958 will be the Mills Bill when, if ever, it is ground out of the Congressional mill. Recent word is that it is currently in the Senate Finance Committee and should have been fully processed the early part of June. As of this date, June 30, no definite action has been taken. A report on this bill should be deferred until such time as it has been signed by the President.

Another very important tax bill in process is the "Small Business Tax Adjustment Bill of 1958", S.2194. Some of the important features of this bill are the inclusion of a reinvestment allowance to permit small concerns to retain earnings for growth and expansion, a retirement program for all taxpayers, and a provision for installment payment of estate taxes. The "reinvestment allowance" would permit a deduction for 50% of the first \$10,000, 30% of the second \$10,000, and 20% of the third \$10,000 which is reinvested in depreciable property or inventory. The allowance would be limited to a maximum of \$10,000. The retirement program would allow an exclusion from gross income for deposits for retirement which would be limited annually to 10% of the taxpayer's net income or \$1,000 whichever is less.

Other proposals encompassed by S.3194 are a rapid method of depreciation on assets acquired used, an election by un-

animous agreement of corporation stockholders to be taxed as partnerships, and an increased minimum accumulated earnings credit for purposes of the tax on improper accumulation of surplus.

The Douglas Bill (S.2888) also in process at this time would apply to practically all employee pension, profit-sharing and welfare plans. Fines and imprisonment would follow conviction for failure to comply. Some of the highlights of the requirements of this bill are: (1) Registering the names and addresses of those in charge of managing the plan, their relationship to the employer or unions, etc. (2) Reporting payments, distributions, receipts, disbursements, assets, liabilities, etc. (certified by a CPA) and details on insurance and investments. (3) Disclosure of registration or report material via public inspection at the Department of Labor with copies available at principal offices of the plan for beneficiaries to examine. They could also get summaries on request. (4) Administration by Secretary of Labor who could investigate, subpoena, regulate, etc.; he could exempt plans covering less than 100 employees from items (1) and (2). (5) Effective term would be four years from date of enactment with recommendations or continuation, etc. made before 1961 by the Secretary of Labor.

(Continued from page 4)

example, a farmer averages \$20,000.00 annual gross income from farming. He buys a piece of farm land in need of development and uses it in connection with his farm operations. At the same time, he spends \$5,000.00 in leveling and grading the property, and sells it in the following year. The \$5,000.00 spent on leveling and grading is fully deductible from ordinary income, but the \$5,000.00 or more gain he would realize on the sale of the property would be taxable only at capital gains rates.

If a farm is operated at a profit, the income will be taxed regardless of whether it is run as a hobby or as a business. If the farm shows a loss the loss is deductible from the taxpayers other income in the

current year or other years only if the farm is operated on a commercial basis and not as a hobby. If the farm is operated as a hobby and the expenses exceed the receipts, the receipts are ignored and the expenses disallowed. The fact that repeated losses are sustained does not necessarily mean that the farm is a hobby, if the taxpayer has hopes of placing the farm on a paying basis. It is the expectation of gain, not the realization of gain, which is a determining factor. A special rule limits the loss deduction of farms which have losses in excess of \$50,000.00 for five consecutive years. If a farm has lost this sum for the required number of years, the special limitation will apply even though the farm is carried on as a business.